

SERS-O-GRAM

A newsletter for members of the State Employees' Retirement System of Illinois

APRIL 1999

Pending SERS Legislation

The 91st legislative session began in January with numerous pension bills being introduced.

Two proposed bills would eliminate the Social Security offset from SERS survivor benefits.

When a state employee who has contributed to Social Security dies, the SERS survivor benefit for their spouse is reduced by one-half of the Social Security survivor benefit. These bills (H221, S108) would eliminate this offset.

During last year's veto session, rumors about a proposed Early Retirement Incentive (ERI) bill dominated pension legislation

issues. While rumors continue, no bills for an ERI have been introduced and no legislator has publicly supported it.

Other legislation introduced during the spring session include:

- Bills changing the cost basis for purchasing military credit.
- Bills allowing for the purchase or transfer of service credit. These purchases include: Secretary of State fellowships; Council of State Government service; leaves of absence before 1982; layoff credit; and Metro, Pier, and Expo

Legislation

(continued on page 4)

Beginning with this April edition of the SERS-O-GRAM, and all future April editions, we will provide you with information on topics that are discussed in our pre-retirement workshops.

Y2K & SERS

Y2K—the acronym for the approaching millenium—has doomsayers predicting multiple computer failures on January 1, 2000. The Y2K problem started several decades ago when computer disk storage was very expensive.

To save space, programmers would write programs using the smallest amount of information necessary. One way to do that was to eliminate the century datafield. Therefore, 1975 became 75. Since computers run on logic, the date 00 would be processed as 1900, resulting in computer errors or shutdowns.

The State Employees' Retirement System (SERS) has been working on this predicament for many years. When we began updating our computer systems in 1978, we coded our programs to recognize the entire year. The active member database was

recently converted to Y2K compliance and placed in operation in December, 1998.

This will allow us a full year of processing before the year 2000 to work out any glitches that may occur.

The Comptroller's Office and Central Management Services have informed us that they have also upgraded their systems to avoid the Y2K problem. SERS has also contacted key business partners and suppliers about their Y2K preparedness. They have informed us that they have converted to a Y2K compliant system or are currently working on it.

We have also developed a contingency plan in the event that computer problems or errors occur that are beyond our control. This should further ensure a smooth business transition to the year 2000.

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Constructing the SERS Financial Plan

The key to success for any investor is the development of a financial plan. It makes no difference whether the investor is an individual or a retirement system like SERS.

Although each financial plan is different, the ultimate goal is to achieve financial independence regardless of how the markets perform.

A financial plan must also maintain a solid investment foundation. This foundation supplies the basis for future investment growth and provides the essential building blocks of our financial plan.

Each fiscal year, SERS and the Illinois State Board of Investment examines our current financial plan to determine if changes are needed.

SERS and the ISBI are constantly working to ensure financial stability, while making solid investment decisions to maximize total return on fund assets. This article looks at the various elements of the SERS financial plan.

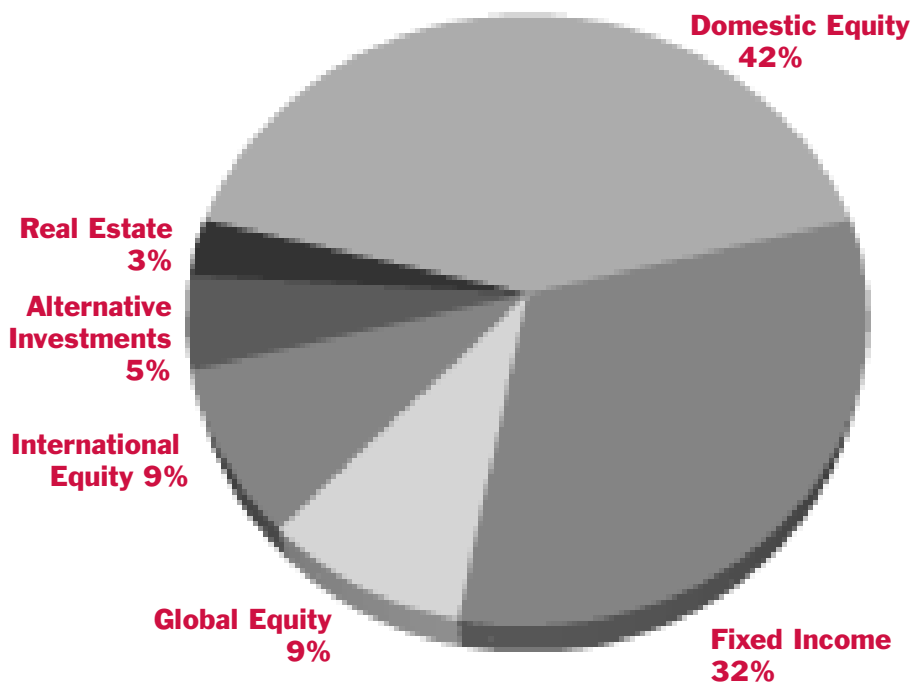
One way of examining the SERS financial plan is through the Statement of Plan Net Assets. It shows the value of SERS investments on a particular day (June 30, 1998).

Another way of looking at our financial plan is how money flows in and out of SERS. The Statement of Changes in Plan Net Assets provides a comprehensive review of the fiscal year activity.

SERS has three main sources of revenue: contributions from our members, contributions from the state of Illinois agencies, and income from investments. During this past fiscal year, we enjoyed an increase in all three sources of income from the prior fiscal year, but the most significant dollar increase came from our investment income.

On the bottom half of the Statement of Changes in Plan Net Assets is a summary of how that revenue was spent. Nearly 98.5% of the money paid out by SERS during fiscal year 1998 was for benefits and refunds to our members and their survivors. Only 1.5% of SERS expenses goes to the retirement system administration.

Asset Allocation - June 30, 1998



Where the Money is Invested

All SERS money not required for current operating expenses is invested by the Illinois State Board of Investment. This separate state agency provides the investment expertise needed for maximum returns. They place money in a variety of investments to earn the highest rate of return, while also taking a reasonable amount of risk. (See pie chart at left.)

SERS benefits are not tied to the performance of the financial markets, but are based on state law. Therefore, SERS benefits will continue to be paid regardless of what is going on in the financial marketplace.

What is Funding?

In order to pay benefits, SERS must accumulate sufficient money to meet those needs. The process of obtaining and accumulating these funds is called "funding."

There are several different approaches to fund a retirement system, and each approach may use a different method to meet their ultimate objective. That objective, by state law, is to have the retirement system funded at 90% by the year 2045.

Funding at this level means there would be enough money on hand by 2045 to equal 90% of the value of benefits earned by active and retired members and their beneficiaries.

Legislation

Recent legislative changes have also impacted the SERS financial plan. The single most significant change was the passage of the flat rate benefit formula for 60,000 regular SERS members.

While this change provides a much better retirement benefit to these members, it also costs the state more money. The flat rate formula legislation also called for the state to pay more money into SERS to meet this additional obligation.

Certificate of Achievement



The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the State Employees' Retirement System (SERS) for its comprehensive annual financial report for the fiscal year ended June 30, 1997.

SERS has received this award for twelve consecutive years.

Statements of Plan Net Assets June 30, 1998 and 1997

	1998	1997
Assets		
Cash	\$ 79,514,954	\$ 69,478,145
Receivables	17,870,937	14,423,277
Investments (at fair value)	6,969,135,972	5,965,539,268
Equipment (net of acc. depr.)	<u>3,622,304</u>	<u>3,771,484</u>
Total Assets	\$ <u>7,070,144,167</u>	\$ <u>6,053,212,174</u>
Liabilities		
Total Liabilities	\$ <u>5,649,337</u>	\$ <u>5,184,949</u>
Net Assets Held in Trust for Pension Benefits	\$ <u><u>7,064,494,830</u></u>	\$ <u><u>6,048,027,225</u></u>

Statements of Changes in Plan Net Assets June 30, 1998 and 1997

	1998	1997
Additions		
Contributions:		
Participants	\$ 155,898,112	\$ 145,683,543
Employer	<u>200,741,736</u>	<u>158,179,514</u>
Total Contributions Revenue	\$ <u>356,639,848</u>	\$ <u>303,863,057</u>
Investment Income	<u>\$ 1,080,235,182</u>	<u>\$ 952,611,008</u>
Total Additions	\$ <u>1,436,875,030</u>	\$ <u>1,256,474,065</u>
Deductions		
Benefits	\$ 399,440,085	\$ 368,668,943
Refunds (including transfers)	14,812,967	12,722,427
Administrative	<u>6,154,373</u>	<u>5,735,827</u>
Total Deductions	\$ <u>420,407,425</u>	\$ <u>387,127,197</u>
Net Increase	\$ 1,016,467,605	\$ 869,346,868
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	<u>6,048,027,225</u>	<u>5,178,680,357</u>
End of Year	\$ <u><u>7,064,494,830</u></u>	\$ <u><u>6,048,027,225</u></u>

Social Security Reform

Social Security pays out nearly \$1 billion dollars a day. The average retirement payment is \$670 per month, and the average disability check is \$640.



Some of the most significant reforms to the Social Security system in many years are now under consideration by Congress and President Clinton. Several initiatives have been proposed to strengthen Social Security:

- Allocate a portion of the projected budget surplus to the Social Security system.
- Invest a portion of the Social Security reserve in the private sector to achieve higher returns. Although this would be done through an independent management firm, this initiative is highly controversial.
- Increase payment amounts to elderly women—particularly widows, whose poverty rate is nearly double that of other older Americans.

Social Security reform seems to be an issue whose time has finally arrived. The general consensus is that something needs to be done, the question is what to do.

Some legislators believe that investing Social Security funds in the stock market would provide greater investment returns, thereby extending the life of the federal

retirement program. Other leaders have not endorsed this investment policy, due to the possible impact on private sector markets.

Federal Reserve Chairman Allen Greenspan has indicated that as the surplus grows, Congress may have a difficult time leaving it alone. They could use it for items which they consider “emergency spending.”

During these times of double-digit stock market returns, low inflation and low unemployment, it seems that no one could lose money by allowing some privatization of funds. But go back to the late 1970’s and early 1980’s, and recall interest rates near 20%, high unemployment, outrageous gasoline prices, and run-away inflation, and the potential for loss seems far more likely.

The question of how to reform Social Security strikes at the very heart of what the massive federal program was designed to be in the very first place: a national social insurance program paying workers an income after retirement.

Any change to Social Security will come about only after considerable national debate and exposure of the possible positive and negative effects the changes would bring.

Legislation

(continued from page 1)

Authority service. Another proposed bill extends the time to purchase federal service.

- Bills affecting alternative formula members include: a series of House bills allowing a transfer of credit from other police systems to SERS; allowing Human Services employees at security facilities, flight safety coordinators, State Police forensic employees, CMS mechanics at Correctional facilities,

and Corrections Institution Management Information System employees to be included under the alternative formula.

Other proposed bills of interest: employees not contributing to Social Security can retire at any age once their benefit reaches 75%; allow tax-sheltering of service purchases from other retirement systems.

We will report on the results of the spring legislative session in the August edition of the SERS-O-GRAM.

Financial Planning for Retirement

Financial planning advice is littered with rules of thumb that are intended to simplify investing and money management. This article attempts to explain the difference between the two most widely used methods financial planners use when figuring how much money you will need in retirement.

Income Replacement Ratios

Some financial planners use Income Replacement Ratios (IRR) to assist them with pre-retirement planning. IRR measures the amount of retirement income needed to preserve a family’s pre-retirement lifestyle—usually thought to be 65 - 80%.

In one attempt at calculating IRRs, a study used a “base case” of a married wage earner who retires at age 65 with a non-wage earning spouse age 62. The table at right shows the breakdown of income replacement ratios needed to live the same lifestyle at different income levels.

To get an accurate financial picture, you should project the replacement ratios 10 or 20 years into retirement, but remember that the IRR does not reflect the impact of post-retirement inflation.

Income replacement ratios should work for people who have paid off their mortgage, receive free or low cost health insurance in retirement, and have been investing a percentage of their income for retirement.

The people most vulnerable to a lower retirement lifestyle are those who haven’t invested and saved throughout their working years.

Monthly Expenses

There are other financial planners who feel that Income Replacement Ratios are an irrelevant yardstick, looking instead at current monthly expenses, and projecting that amount to see how much money will be needed in retirement.

They get a detailed breakdown of a client’s monthly expenses; then estimate their expenses at retirement. If your expenses exceed your income, the planner would advise that corrective actions be taken. If your expenses balance out, is sufficient money being placed into savings and investments options?

The financial planner would then decide which expenses would no longer exist after retirement (mortgage or loan payments), and what new expenses would be incurred after retirement (traveling or the cost of Medicare Part B).

Once the financial planner has an adjusted retirement budget, they can estimate how this budget will increase over time with inflation.

Although the inflation rate has averaged 5% over the last 20 years, the affect of inflation remains constant—as the cost of living goes up, more money is needed to keep the same lifestyle over time. This must be kept in mind when figuring how much money will be needed in retirement.

The people most vulnerable to a lower retirement lifestyle are those who haven’t invested and saved throughout their working years.

Replacement Ratios	
Gross Pre-Retirement Income	Replacement Ratio
\$20K	84%
\$25K	80%
\$30K	77%
\$40K	72%
\$50K	69%
\$60K	67%
\$70K	67%
\$80K	68%
\$90K	71%
\$150K	79%

Deferred Compensation Payouts

One of the decisions that must be made when planning for retirement is choosing how you want your Deferred Compensation account distributed.

When choosing a Deferred Compensation payout, you have a variety of distribution options to choose from. You may receive your distribution immediately, or delay payments until a later date.

You must choose a distribution option during the 60-day election period after you retire from state service. You may want to seek the advice of a financial planner or tax consultant before making this choice.

DISTRIBUTION ELIGIBILITY

You are eligible for a distribution after you have separated from state service for 30 days. If you are hired as an independent contractor providing personal services to the State of Illinois within the 30-day period, you are not considered terminated, and therefore ineligible for a distribution.

ACCOUNT DISTRIBUTION

Your distribution can begin immediately, if the value of your account at retirement is \$3,500 or more, using one of the distribution methods described below, or you may delay distribution until age 70 1/2.

If the value of your account is \$3,500 or less, you must take a lump sum distribution unless you are eligible for a plan-to-plan transfer.

You may choose a distribution payout based on your life expectancy, to be recalculated annually, or choose a number of years less than your life expectancy. The payment schedule depends on the distribution option you choose.

Each payment is taken proportionally from your investment account. For instance, if 60% of your money is in Fund A and 40% is in Fund B, a \$100 payment would be taken proportionally from each Fund—\$60 from Fund A and \$40 from Fund B.

The State of Illinois Deferred Compensation Plan falls under Section 457 of the Internal Revenue Code. Your deferrals and any compounded earnings are free of current taxes. However, you or your beneficiary must pay federal income tax on all payouts. Payouts are exempt from State of Illinois income tax.

You cannot roll your account into a 401K retirement program or an Individual Retirement Account (IRA) without being taxed as income first.

Distribution materials are available from the Deferred Compensation Office. If you have any questions, or would like additional information or assistance, call the Deferred Compensation Office at 1-800/442-1300, extension 3.

Distribution Options

Total Lump Sum

A one-time distribution of the total value of your account.

Partial Lump Sum

A single payment followed by installments.

Installments

You decide how many years you want to receive payments. The installment amount will vary with each payment. Payments can be made monthly, quarterly, semi-annually, or annually.

Fixed Dollar Installments


You decide the fixed amount of each installment payment. Payments can be made monthly, quarterly, semi-annually, or annually.

Plan-to-Plan Transfer


If you become employed by another state or local government, you may be able to transfer your plan account balance to another government 457 plan.


Planning for Retirement Checklist

Members planning to retire within the the near future should begin taking steps toward that goal. For SERS members, the checklist below provides general guidelines for retirement preparation. This checklist shows when to begin re-requesting information and filing the required forms.


 **Anytime During Your Career**
Purchase any service credit you may be eligible for as soon as possible. It's cheaper, because the interest is calculated for a shorter period of time. Potential service credit would include:


- Qualifying Periods
- Refunds
- Military Service
- Leaves of Absence
- Short Periods of Employment

 **One to Three Years Before Retirement**
Attend the Countdown to Retirement (CDR) pre-retirement workshop. Contact SERS at 217/785-6979, or your agency's Retirement Coordinator. The CDR workshop is held year-round.

 **Twelve Months Before Retirement**
Request a retirement benefit estimate. Tell us if you have any sick or vacation time that can be used to increase your pension. If you want a Level Income estimate, obtain a Social Security estimate and send it to us.


 **Six Months Before Retirement**
Discuss your retirement benefits and options with your family and financial advisor.


 Prepare a retirement budget estimating your SERS pension, Social Security and other sources of income. Compare your monthly net income with your projected retirement expenses.

 Update or prepare your will, and schedule a complete medical check-up.

 **Three Months Before Retirement**
Contact the Social Security office for an estimate of your Social Security benefits. You can obtain an estimate request form by calling the Social Security Administration at 1-800-772-1213.

 Sign up for Medicare Part A if you are still working at age 65.

 **One Month Before Retirement**
Contact SERS to obtain a Retirement Benefit packet.

 Submit a formal letter of retirement to your agency.

Whether you're 25, 60, or somewhere in-between, SERS offers a pre-retirement workshop geared towards your age group. All of our workshops feature presentations by a financial planner, an attorney, and a representative from Deferred Compensation.

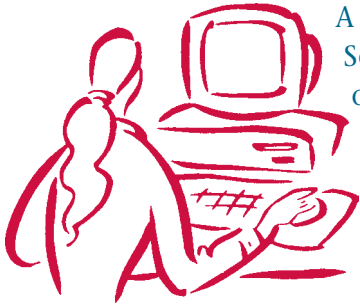


Attendees will also receive a workbook chock full of information and worksheets to help you understand where you are now, both financially and physically, and what you will have to do to improve your financial and physical health.

Contact your Retirement Coordinator to register for a pre-retirement workshop. Attending a workshop will be a positive step in planning for your retirement.

SRS on the Internet

The State Retirement Systems is now on the Internet. A summary of the annual financial report for the State Employees' Retirement System, Judges' Retirement System, and the General Assembly Retirement System can be viewed along with their respective current plan summaries. A summary of the Illinois State Board of Investments annual financial report for all three systems is also included. These reports and plan summaries are updated on an annual basis around the end of each calendar year.



A Bulletin Board Section for each of the system's home page is used to keep members informed of legislation,

workshop schedules, and other important matters that affect them.

A link to the other state agencies is also available at our site. Members may E-mail us with any questions and/or comments.

We can be reached at:

Internet: <http://www.state.il.us/srs>

E-Mail: ser@pop.state.il.us



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Retirement Coordinator of the Year

Sharon Eller has been named the SERS Retirement Coordinator of 1998. Sharon, who works for the Illinois State Police in Springfield, was selected for her outstanding efforts and great personality.

Among her accomplishments are:

- Excellent communication skills with SERS staff and State Police employees.
- Provides informational materials to employees for workshop registration, as well as handling any extra scheduling needed.
- Discusses benefit options with potential retirees on a one-on-one basis.
- Answers member questions about Illinois State Police procedures and explains their SERS benefits.
- Attends all ETC workshops for sworn officers to answer questions and address issues.

She is also the Illinois State Police Deferred Compensation liaison. Sharon has been employed with the Illinois State Police since July 16, 1971. Congratulations Sharon!



Sharon Eller receives her Retirement Coordinator of the Year award from SERS Field Services representative Irene Barber and Illinois State Police acting director Gene P. Marlin.

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